

SUTTER COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 1999

CALIFORNIA STATE BOARD OF EQUALIZATION

JOHAN KLEHS, HAYWARD
DEAN ANDAL, STOCKTON
CLAUDE PARRISH, TORRANCE
JOHN CHIANG, LOS ANGELES
KATHLEEN CONNELL, SACRAMENTO

FIRST DISTRICT
SECOND DISTRICT
THIRD DISTRICT
FOURTH DISTRICT
STATE CONTROLLER

E. L. SORENSEN, JR., EXECUTIVE DIRECTOR



FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as: (1) discovering and taking inventory of all property within the county; (2) determining a property's eligibility for a full or partial exemption from assessment; (3) determining the proper assessee; (4) determining the location for assessment purposes of the property; and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a restricted value. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the Board's County Property Tax Division (CPTD), is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey.

Assessment practices surveys are authorized by Government code sections 15640 et seq. These code sections require each county's assessment practices to be the subject of such a survey at five year intervals. The surveys must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties. The surveys may include a sampling of assessments from the local assessment roll to determine eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, the county assessor's response, and the Board's comments regarding the response constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Field work for this office survey report of the Sutter County Assessor's Office was completed by CPTD staff during September and October 1997. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable Michael V. Strong, the Sutter County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
County Property Tax Division
Department of Property Taxes
California State Board of Equalization
March 1999

County Property Tax Division Survey Group

Sutter County Survey

Survey Program Director:

J. Thomas McClaskey
Charles Knudsen

Principal Property Appraiser
Principal Property Appraiser

Office Survey Team Supervisor:

David J. Hendrick

Supervising Property Appraiser

Office Survey Team Leader:

Rudy G. Bischof

Senior Specialist Property Auditor Appraiser

Office Survey Team:

James McCarthy
Dennis Miller
Les Morris
Daniel Ortland
Manuel Garcia
Teresa Brink

Senior Specialist Mining Appraisal Engineer
Associate Property Appraiser
Associate Property Appraiser
Associate Property Appraiser
Associate Property Auditor Appraiser
Tax Technician II

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EXECUTIVE SUMMARY

INTRODUCTION

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Sutter County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the State Board of Equalization (BOE) to make periodic review of the assessor's operation. This survey report is the result of such a review of the Sutter County Assessor's Office by the BOE's County Property Tax Division (CPTD).

Government Code section 15640, in part, mandates that the State Board of Equalization shall:

(a)...make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. (c) The survey may include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

It is apparent from this language that the Legislature envisioned the BOE's office research and appraisal sampling to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on office research, or in certain circumstances, office research and actual field appraisals of sampled roll items. The way in which the office research and the sampling process is carried out was developed after consultation with the county assessors by the staff of the BOE's Property Taxes Department.

This survey was conducted according to the method mandated by Government Code section 15642. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate. This report is the culmination of a review of the Sutter County Assessor's operation that consisted of the CPTD's office research that examined current practices and procedures in key areas to see whether significant problems exist in the assessor's operation. Finally, the survey report offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in the program. The recommendations and suggestions contained in this report are based on our analysis of data which indicates that statutory violations, under or over assessments, or unacceptable appraisal practices may be occurring in specific areas.

Revenue and Taxation Code section 75.60 requires that the BOE certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level that is not less than 95 percent of the amount required by law as determined by the BOE through its assessment sampling program. In addition, for sampling for the 1996-97 fiscal year and subsequent fiscal years, the sum of the absolute values of the differences cannot exceed 7.5 percent of the legally required amount.

Based upon our assessment sampling for the 1994-95 assessment roll, the BOE certified Sutter County as an eligible county. This indicates that its assessment program is in substantial compliance with the law as of that sampling. Section 75.60(c) requires that certification remain in effect until the next sampling. Counties in which a survey has been conducted without sampling are subject to sampling if the BOE believes significant assessment problems as defined in BOE Rule 371 exist. The survey found no indication that significant assessment problems exist in Sutter County.

SUMMARY

The Sutter County Assessor has a staff of 22 employees. The real property staff consists of one supervising appraiser, five appraisers, and one appraisal aide. The personal property staff consists of one supervising auditor-appraiser, three auditor-appraisers, and two assessment clerks. The clerical support staff has one office manager, seven assessment clerks, and one drafting/title technician.

The assessor has accomplished many positive things since our last published survey in 1992 even though he has only held office since January 1995:

- The completed 1995-96 assessment rolls contain *all known* assessable property. For lien dates prior to 1995, the former assessor did not include certain types of properties such as boats; these property types were assessed at later dates as escape assessments.
- Redesigned the agricultural property statement used for tree and vine assessments; as a result there has been a significant increase in reporting compliance and an improvement in the quality of reported information.
- In 1996, sent value notices to all taxpayers. This resulted in an increase in the number of appeals but also disclosed a number of assessments warranting decreases in taxable value. Most of these assessment discrepancies were resolved through an informal review process instead of the appeal process.
- In 1996, developed a brochure titled, "Understanding Your Assessment." This brochure was included with the value notices and provides helpful information about the assessment process.

- In calendar year 1996, acquired the AUTO-CAD program for updating and maintaining the mapping system. This technology has improved the overall quality of the assessor's maps.
- Established the position of supervising real property appraiser. This position provides first-line supervision over real property assessments. As a result, real property assessments as well as real property roll corrections are routinely reviewed. This new position also provides for balance in the overall management of the office.
- Eliminated work backlogs by using the State-County Property Tax Administration Program.
- Installed a review procedure to ensure proper documentation of assessment records.
- Although there was a decline in the number of parcels affected by a change in ownership or new construction, the overall assessment activity for 1996-97 increased 13 percent from the 1995-96 assessment season. There were 192 properties that required assessment adjustments due to the Meridian Flood. Assessments with changed values totaled 7,735. Assessment appeals, disaster relief claims, and reviews for market value below factored base year value accounted for 53.8 percent of the workload. In spite of the increase, the assessment roll was completed without an extension of the deadline.

We commend the assessor and his staff for conducting a good assessment program. However, we have some recommendations and suggestions that will further enhance the quality of the program. These recommendations relate to changes in assessment procedures involving unique property types and compliance with Revenue and Taxation Code sections relating to unique assessment procedures. In addition, we make some suggestions relating to office operational procedures.

RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the Sutter County Assessor's Office.

Government Code section 15645 requires the assessor to respond in writing to the formal recommendations contained in this report.¹ Our recommendations are reserved for situations

¹ Government code section 15645 provides, in relevant part: "...Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

where one or more of the following conditions exists:

- Violations of state constitutional provisions, statutes, BOE regulations, or case law are present.
- Existing assessment practices result in property escaping assessment or generation of an incorrect amount of property tax revenue.
- Existing appraisal practices do not conform to Board-adopted appraisal methodologies.

Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not call for formal recommendations.

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

Recommendations:

<i>RECOMMENDATION 1:</i>	<i>Comply with Revenue and Taxation Code section 155.20 by: applying the low-value property exemption uniformly to all qualifying properties.</i>	<i>9</i>
<i>RECOMMENDATION 2:</i>	<i>Assess all qualifying possessory interests at the county fairgrounds.</i>	<i>18</i>
<i>RECOMMENDATION 3:</i>	<i>For properties appraised using an operating income approach, provide for a return on working capital.</i>	<i>21</i>
<i>RECOMMENDATION 4:</i>	<i>Use the computer valuation factors as recommended in Letter to Assessors 97/18.</i>	<i>25</i>
<i>RECOMMENDATION 5:</i>	<i>Apply the 10 percent penalty for failure to timely file an aircraft statement.</i>	<i>28</i>
<i>RECOMMENDATION 6:</i>	<i>Comply with Revenue and Taxation Code section 5801 by classifying manufactured homes as personal property.....</i>	<i>29</i>

Suggestions:

<i>SUGGESTION 1:</i>	<i>Develop an operational procedures manual for the real property division.</i>	<i>10</i>
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SUGGESTION 2:	<i>Improve the procedures for assessing new construction by documenting the basis for discounting the cost of new residential swimming pools.</i>	<i>14</i>
SUGGESTION 3:	<i>Stop calculating the property tax change resulting from a supplemental assessment.</i>	<i>15</i>
SUGGESTION 4:	<i>Create a central database for agricultural sales questionnaire data.....</i>	<i>16</i>
SUGGESTION 5:	<i>Review the assessments of taxable government-owned property to: (1) ensure that each property is assigned to the correct tax-rate area; and (2) ensure that the lowest of (a) the current market value, (b) the Article XIII A factored base year value, or (c) the value specified in section 11 is the taxable value.</i>	<i>17</i>
SUGGESTION 6:	<i>Review all possessory interest assessments when capitalization rates change in order to ensure that taxable value is the lower of fair market value or factored base year value.</i>	<i>18</i>
SUGGESTION 7:	<i>Consider the income approach to value when valuing private water companies.</i>	<i>20</i>
SUGGESTION 8:	<i>Review the practice of applying minimum percents good in depreciation tables.....</i>	<i>25</i>
SUGGESTION 9:	<i>Document that certified staff review boat and aircraft value estimates.....</i>	<i>26</i>
SUGGESTION 10:	<i>Revise the aircraft property statement to include references to Revenue and Taxation Code sections 5365 and 5367.....</i>	<i>28</i>

ADMINISTRATION

BUDGET AND WORKLOAD

For the 1996 lien date, the Sutter County Assessor prepared an assessment roll containing approximately 36,000 assessments on an approved budget for 1995-96 of \$1,025,968, which is approximately 13 percent higher than the previous year's budget. This budget funded 21 fulltime positions.² It should be noted that the Sutter County assessment roll has increased an average of 2.78 percent per year more than the statewide average increase for the past six years.

The real property workload for the past year in Sutter County included approximately 3,000 reassessments resulting from changes in ownership and approximately 1,100 reassessments resulting from new construction. In addition, the assessor's office processed 213 disaster relief claims and approximately 45 property splits. The real property division also performed many other tasks including assessment appeals and reviews of declining values.

Since the 1991-92 roll year, the section 601 roll in Sutter County has increased as follows:³

<u>Year</u>	<u>Total Value</u>	<u>Increase</u>	<u>Statewide Increase</u>
1991-92	\$3,013,981,000	13.9%	8.4%
1992-93	3,188,512,000	05.8%	5.4%
1993-94	3,337,113,000	04.7%	3.1%
1994-95	3,534,501,000	05.9%	1.3%
1995-96	3,637,305,000	02.9%	0.7%
1996-97	3,770,566,000	03.7%	1.3%

Revenue and Taxation Code section 95.31 provides that a county may elect to participate in the State-County Property Tax Administration Program by applying for a loan of funds to be used to enhance its property tax administration system. Under the terms of the loan contract, the county repays the loan by achieving the performance measures specified in the contract. The completion of these measures would, in theory, generate property tax revenue to schools greater than or equal to the loan amount.

On June 1, 1996, the Sutter County Board of Supervisors, upon the recommendation of the assessor, elected to participate in the State-County Property Tax Administration Program for the period beginning with the 1995-96 roll year and ending June 30, 2000. Under the contract, the state agreed to loan \$147,436 for each of three years beginning June 1, 1996 and ending May 31, 1999. In exchange,⁴ the county agreed to use funds received from the state to enhance property tax administration, and not to use the loan to supplant the assessor's current level of funding. Sutter County agreed to maintain staffing and total funding levels at levels equal to or exceeding those of the 1993-94 fiscal year, which were less than funding levels in the 1994-95 fiscal year.

² "A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices," 1995-96.

³ State Board of Equalization Annual Reports.

⁴ Provision 7 of the Sutter County contract, page 6.

For the initial loan, the assessor proposed that the expenditures will enhance its property tax administration system by accomplishing the following: (1) reducing the backlog of new construction assessments and change in ownership reassessments; (2) defending and reducing the backlog of assessment appeals; (3) bringing mandatory audits current and increasing non-mandatory audits; (4) reviewing business property accounts for escaped assessments; (5) reducing the backlog of market value below factored base year value reviews; and (6) maximizing value enrollment capabilities.

Each loan contract contains the performance measures required to have the loan amount forgiven. Both the reported figures and the calculations must be verified by the county's auditor-controller. A loan will be considered repaid if the "percentage of success" exceeds 95 percent of the performance measure. This is computed by using a prescribed formula. For the first year the assessor reported, and the auditor-controller verified by audit, that the "percentage of success" achieved was 115 percent. The total added revenue resulting from increases in assessments was \$365,564.

ASSESSMENT APPEALS

The assessment appeals function is authorized under article XIII, section 16 of the California Constitution, which provides that the Legislature shall determine the manner and procedure of assessment appeals. Revenue and Taxation Code sections 1601 through 1641.1 are the statutory provisions that guide county boards of supervisors in the appeals function. Government Code section 15606(e) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the elected Board has adopted sections 301 through 326 of Title 18 of California Code of Regulations (Property Tax Rules 301 through 326) to regulate assessment appeals.

We conducted a review of the appeal functions that involved the activities of both the county appeals board and the assessor's office. The number of assessment appeals has drastically increased during the recent California recession that caused a decline in real estate values. Most of the appeals are based upon the taxpayer's belief that the market value of real property is lower than its factored base year value.

Sutter County has an appeals board appointed by the board of supervisors. The appeals board has one representative from each district and serves as the county board of equalization for all assessment appeals. The assessor appears to have a positive working arrangement with the assessment appeals board.

Each appraiser is responsible for preparing and presenting his or her own case during the appeal hearing. Both the supervising appraiser and the assessor attend and oversee each presentation. The assessor does not have written instructions or procedures for participation in these hearings.

Sutter County, like most counties in the state, has had an increase in the number of appeals. The current number of appeals is approximately 400; in previous years the number has been less than 200. A portion of the increase in appeals in Sutter County this past year was a result of the assessor, for the first time in many years, sending value notices to all property owners throughout the county. Approximately 75 percent of the appeals do not result in a formal hearing. Approximately 50 percent were withdrawn as a result of the assessor and the taxpayer agreeing to a reduction in taxable value, and 25 percent of the appellants failed to appear at their hearing.

We commend the assessor and his staff for their efficiency in conducting an effective assessment appeals program. However, we found that at least two of the five members of the appeals board have not received training from the BOE. Periodic training for appeal board members is important even though members may have substantial experience in real estate or business. The assessment of property for tax purposes is a technical area requiring, among other things, a knowledge of property tax statutes, case law, BOE regulations, and advisory letters.

The clerk of the board of supervisors normally schedules all the training received by appeal board members. Additionally, the county counsel provides advice on a case-by-case basis. Revenue and Taxation Code section 1624.02 discusses training offered by the BOE relating to assessment appeals. The assessor should make the clerk of the board aware of the training available from the BOE.

LOW VALUE PROPERTY EXEMPTION

Revenue and Taxation Code section 155.20 permits a county board of supervisors to exempt from property tax all real property with a base year value and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. In determining the level of the exemption, the board of supervisors shall determine at what level of exemption the costs of assessing the property and collecting taxes, assessments, and subventions on the property exceeds the proceeds to be collected. The board of supervisors shall establish the exemption level uniformly for different classes of property. Except for certain possessory interests, the full value authorized for this exemption cannot exceed \$5,000. Sutter County has such a resolution with the exemption limit set at \$3,000.

Sutter County's 1997-98 assessment roll contained 2,667 properties that were exempted by the low-value ordinance. We selected, at random, 50 assessments from the secured roll for review. We found that the assessor needs to revise one part of this program to bring it into compliance with property tax law.

RECOMMENDATION 1: Comply with Revenue and Taxation Code section 155.20 by: applying the low-value property exemption uniformly to all qualifying properties.

In some instances the assessor used the aggregate factored base year value of parcels which are contiguous and under the same ownership to deny eligibility for the low-value exemption when the aggregate value exceeded the exemption limit. In other instances, we found aggregate factored base year values of the contiguous parcels with the same ownership above the low-value limitation, yet the exemption was granted to individual parcels. We also found various parcels with the same ownership but not contiguous, with individual parcels factored base year values below the limit, that were not given the exemption.

Neither the code nor the resolution adopted by Sutter County address the question of the appraisal unit when applying the low value property tax exemption. Whichever method the Sutter County Assessor chooses to use, we recommend that it be applied uniformly.

DISASTER RELIEF

Our 1992 survey report recommended that the assessor establish disaster relief procedures. The program at that time had several shortcomings in the areas of discovery, administration, and notification. The 1992 survey report indicated that fire incident reports were not received on a regular basis from fire protection agencies and, when the reports were received, they were often mishandled in a manner that indicated a lack of understanding of the program by the assessor's staff. Most incident reports from the fire protection agencies did not include the assessor's parcel number (APN). The survey report recommended that the assessor continue to request incident reports and attempt to have the fire protection agencies include the assessor's parcel number. The survey also recommended that the assessor make the initial contact, including an explanation of the available relief, with affected taxpayers rather than waiting for the taxpayer to make the first contact. The survey report also recommended that completed requests for disaster relief be handled in the same manner as new construction events.

The assessor has implemented the recommendations over which he has control. Response from fire protection agencies is excellent, but APN's are still not included on fire incident reports.

We reviewed 20 randomly selected fire incident reports from the Yuba City and Sutter County fire protection agencies for the period January 1, 1995 to March 31, 1997; the reported estimated damages ranged from \$5,000 to \$175,000. In every instance, the assessor sent a letter of explanation and application for reassessment, a disaster relief file was created, and the master property file was flagged as a property eligible for disaster relief.

All of the properties were valued before and after the calamity and tax relief was granted from the date of the fire. For those properties that have been reconstructed, the factored base year values have been restored to the assessment roll. Eight properties had additional value for new construction of improvements in excess of those existing at the time of the disaster added to the factored base year value. Four properties have not been reconstructed. The relief and subsequent restoration to the assessment roll was handled through the supplemental assessment process. For one of the properties, the application was never returned, but the assessor processed the disaster relief without the application as provided for in Revenue and Taxation Code section 170(1).

As a result of the Meridian Flood of December, 1996 and January, 1997, Sutter County was declared a disaster area by the governor. The assessor's staff went to the area as soon as possible and delivered applications for reassessment. They explained the program, inspected the properties, and adjusted the assessments on 192 properties.

We found that the assessor is administering the disaster relief program in an acceptable manner.

PROCEDURES MANUAL

A comprehensive operational procedures manual is both a beneficial device for communicating to staff the organization's policies and procedures and a source for current information on subjects pertaining to operational requirements. It ensures that staff and management have no misunderstanding regarding administrative direction and proper application of operational procedures. Lack of a written operational procedures manual invites misinterpretation and inconsistent application of procedures on the part of all parties involved.

An assessor's staff should have ongoing access to clear and concise written operational procedures. Both an administrative policy and procedures manual and an operational procedures manual are excellent sources of information. Such documents are valuable aids for new staff who must familiarize themselves with the office rules, administrative practices, policy guidelines, specific standards, and uniform operational procedures.

SUGGESTION 1: Develop an operational procedures manual for the real property division.

The business property division has its own operational procedures manual, and the entire office has an administrative policy and procedures manual. However, the assessor's office does not have an operational procedures manual for the real property division. Any procedures that may have some written documentation are not kept in any designated location where all staff members may access them.

Currently, operational procedures are discussed, developed, and adopted in staff meetings conducted by the supervising appraiser, with guidance from the assessor. Questions that arise from time to time are addressed during staff meetings and once clarified, each staff member is expected to implement any resulting changes. At best, the staff keeps personal notes relative to the outcome of these meetings, but there is no consistent way each staff member maintains the guidelines.

Establishing a formal operational procedures manual will bring the real property division in line with the other divisions of the assessor's office. It will also help to ensure that all policies and procedures are consistent with the agreed upon mission, goals, and direction of the assessor's office.

REAL PROPERTY VALUATION AND ASSESSMENT

BASE YEAR VALUES

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation unless there is a change in ownership or new construction. The 1975 full cash value and values that result from a change in ownership or new construction events are known as base year values.

Change in Ownership

Revenue and Taxation Code section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. As the definition indicates, the test for change in ownership is a three-way test. In order to be a change in ownership, a transfer of ownership of real property must transfer a present interest in real property, as well as the right to beneficial use of the property, and the value of the property transferred must be substantially equivalent to the fee value of the property.

The assessor has a clearly written policy for processing deeds for changes in ownership; the policy is closely followed and it is successful. For lien date 1996, 5,165 deeds were processed of which 2,827 were appraisable transactions. The assessor's office receives excellent cooperation from the recorder's office; periodically during the month, batches of deeds are transferred from the recorder's office to the assessor. The recorder requires that a completed Preliminary Change in Ownership (PCOR) accompany all recorded documents involving real property.

We reviewed 25 deeds randomly selected at the recorder's office by tracking them through the assessor's process. In each instance the deed was properly analyzed and the property subject to change in ownership was revalued. The processing is done within a reasonable period; there is no backlog of deeds awaiting analysis.

The 1992 survey report recommended that the assessor not accept incomplete PCOR's, utilize the change in ownership statement, and apply penalties for noncompliance. The assessor has adopted this recommendation. The 1992 survey report also recommended a change in procedures for processing exemption claims for parent-child transfers subject to Revenue and Taxation Code section 63.1. The changes were intended to eliminate a large backlog of these exemption claims; there is no current backlog of such claim processing.

The BOE provides assessors with a list of corporations and partnerships where changes in control have occurred which might meet the Revenue and Taxation Code section 64 definition of a change in ownership of real property owned by the entities, thereby creating a need for new base year value calculations. The date of change of control as published in the BOE-LEOP report should be used as the date of change of ownership and the new base year value set as of this date. We reviewed the actions taken by the assessor for these changes in control.

We tracked eight LEOP changes in control that occurred between 1993 and 1997. In seven instances, we found the correct degree of ownership valued and the correct date of change. One ownership had the deed date as the change in ownership date for the new base year value. We suggest that the assessor refer to the BOE-LEOP report or other data when establishing the date of an ownership change. In many instances deeds are recorded long after the effective change; in other instances no deeds are recorded.

New Construction

Revenue and Taxation Code section 71 requires that the base year value of newly constructed real property be established as of the date construction is completed. The assessor's primary source for discovering new construction is building permits issued by Sutter County, the Sutter County Health Department (wells and waste disposal systems), Yuba City, and the city of Live Oak. Annually, these agencies issue collectively approximately 1,300 permits. Additionally, staff appraisers discover nonpermitted construction activity while they are canvassing their assigned areas of the county. Occasionally, information is supplied on business property statements.

The permits received by the assessor are first screened by the supervising appraiser to determine assessability. Then either an assessment clerk updates the appraisal record for nonassessable permits or an appraiser aide opens a "Work in Process Inventory File" for every assessable permit by entering all relevant data from the permit into the computer system. This process creates a listing of new construction activity used by the supervising appraiser to determine appraisal workload. These entries create an open appraisal record which will remain an "action item" until a positive entry is made to close the record in the course of the assessment year.

The assessor has a self-reporting program for building permit activity for everything except major structures. Data for the return rate for the self-reporting questionnaires was not available. However, it was estimated by the assessor's staff that 80 percent of permits are worked annually through self-reporting. There is a field check only by an appraiser-aide for self-reported construction. Experience in other counties with self-reporting programs for new construction has shown random field-checks to be essential. We believe the assessor is wise to have some staff member field check new construction items. In addition to the reported item, the field check is an opportunity to discover unreported changes to the physical property or unrecorded changes in ownership.

We believe that the building permit processing system, procedures, and controls used within the assessor's office are effective, and the assessor has rectified the shortcomings we discussed in our 1992 survey report. Implementation of the following recommendation should improve an already good program.

SUGGESTION 2: Improve the procedures for assessing new construction by documenting the basis for discounting the cost of new residential swimming pools.

It is often difficult to estimate the value of newly constructed ancillary additions such as swimming pools, patios, carports, and detached garages. Generally, actual historical costs are available but it may be hard to determine other indicators of value.

It is the assessor's policy to routinely value newly constructed swimming pools at 50 to 90 percent of actual cost depending upon the area where the pool is located. The assessor's policy stems from a staff study of sales of comparable residences with and without swimming pools. At the time of our review there was no study available for us to examine.

A sale of a single-family residence with an older pool may not provide a good indication of the value of a similar residence with a new pool. We suggest that the assessor conduct a new study to document swimming pool discounts from acquisition cost.

SUPPLEMENTAL ASSESSMENTS

Revenue and Taxation Code section 75.10 requires, whenever a change in ownership occurs or new construction resulting from actual physical new construction is completed, that the assessor establish a new base year value for the property changing ownership or undergoing new construction. This new base year value is to be the full cash value on the date the change in ownership occurs or the new construction is completed. In most instances, the establishment of a new base year value requires a supplemental assessment; the only exception is for properties that have taxable values resulting from specialized assessment techniques such as Timber Production Zone, California Land Conservation Act, etc.

The assessor has maintained a tally of supplemental assessments for each of the last eight roll years (1989 to 1996). The number of supplemental assessments for the eight-year period averaged 3,900 per year.

Although the assessor lacks a real property assessment procedures manual, he does maintain a written policy for handling supplemental assessments. A review of the assessor's procedures for processing supplemental assessments and our examination of various supplemental assessments made during the last two years indicate that the assessor is completing this task in a very efficient and accurate manner with no undue delays.

All supplemental assessments, including those with values of \$3,000 or less, are prepared daily and edited monthly. A supplemental assessment notice for each supplemental assessment with a pamphlet explaining the assessment and options for review/appeal is sent to the taxpayer of record. On the second to the last Friday of the month, the new taxable values are enrolled on the supplemental roll and transmitted to the county auditor. Included on this roll are the extended taxes due or amounts to be refunded.

SUGGESTION 3: Stop calculating the property tax change resulting from a supplemental assessment.

Calculation of taxes is the county auditor's responsibility. We suggest the assessor not calculate the property tax consequences of supplemental assessments.

DECLINE IN VALUE

Revenue and Taxation Code section 51(b) requires that real property subject to article XIII A of the California Constitution be annually assessed at the lower of the factored base year value, or the current market value as defined in section 110. If the taxable value is less than the factored base year value, the section requires an annual review of the taxable value.

Due to economic conditions during the past few years, property values in many areas of California have declined or stagnated. As a result, many county assessors have had to reduce taxable values below factored base year values in unprecedented numbers. The Sutter County Assessor has been no exception.

Beginning in 1986 and for each succeeding roll year, the assessor has maintained totals of all of properties with a taxable value below factored base year value. Figures for a six-year period, 1991 to 1997, show a range from a low of 377 properties on the 1991-92 roll year to a high of 2,390 for the 1997-98 roll year.

Staff appraisers, who are assigned to specific geographic areas, have the responsibility to discover and reappraise all properties in their areas that are experiencing declines in value below factored base year value. Methods of discovery include the following: (1) knowledge of the market values in the various areas, (2) specific requests for review by individuals, and (3) formal appeals to the assessment appeals board.

We randomly selected 27 parcels from all geographic areas of the county for review from the 2,390 properties with taxable values below factored base year value. In two instances, we found new construction had occurred. In one instance, a value for laser leveling was added to the prior year roll value while in the other instance, a two hundred and twenty-one square foot addition was made without recording its existence on the building record or increasing the taxable value. In neither instance was a reason given why one required an additional value while the other did not.

The assessor should document all improvements which add value to the total property together with an appropriate explanation when evaluating a property that has suffered a decline in value below factored base year value.

SPECIAL PROPERTY TYPES

Agricultural Property

Of all the Sacramento Valley counties, Sutter County ranks number one in gross annual farm income for the production of agricultural commodities. The five top income-producing crops are rice, prunes, tomatoes, peaches and walnuts. While there are in excess of 250,000 acres devoted to agriculture, Sutter County does not participate in the California Land Conservation Act. Valuation procedures for assessment purposes rely heavily on the sales comparison and cost approaches to value. Through a cooperative effort with Butte, Yuba, and Colusa Counties, Sutter County has a sufficient data bank of sales to use in their sales comparison approach to value. Our review indicated the assessor does an excellent job of assessing agricultural properties. However we do have one administrative suggestion.

SUGGESTION 4: Create a central database for agricultural sales questionnaire data.

Agricultural sales questionnaires that are returned to the assessor by the property owner or farm manager are filed in the individual property's assessment file. The agricultural sales questionnaire includes information that can be valuable to all staff appraisers who value agricultural property. We suggest copies of returned agricultural sales questionnaires be made available in a central database.

Taxable Government-Owned Property

Article XIII, section 3 and section 11 of the California Constitution exempts from taxation any property owned by government entities, except certain real property which is located outside the agency's boundaries. Real property outside the boundaries is taxable if it was subject to taxation at the time of acquisition by the government. These properties are commonly referred to as "section 11" properties because the authority to tax them is provided by section 11 of article XIII.

In addition, the California Supreme Court decided in 1995 that the limitations of article XIII A of the California Constitution apply to section 11. This decision requires that, for each lien date, the taxable value of the land portion of section 11 properties be the lowest of (1) the 1967 assessed value times the factor specified in section 11; (2) the current fair market value; or (3) the factored base year value specified in article XIII A.

The taxable value of improvements on section 11 properties is limited to the lowest of the (1) current market value, (2) the Article XIII A factored base year value, or (3) the highest full value ever used for taxation. Improvements are taxable only if they were taxable at the time of the government's acquisition or are improvements that replaced previously taxable improvements.

SUGGESTION 5: *Review the assessments of taxable government-owned property to: (1) ensure that each property is assigned to the correct tax-rate area; and (2) ensure that the lowest of (a) the current market value, (b) the Article XIII A factored base year value, or (c) the value specified in section 11 is the taxable value.*

Our 1992 survey report recommended that the assessor assess all properties owned by government agencies outside their boundaries. Currently we found that the records for taxable government properties that have been assessed were well documented.

We reviewed 26 government-owned properties that the assessor listed as exempt. When we compared government-owned land parcels' tax-rate area codes against the tax-rate area index to determine if listed government-owned properties were within the government agencies' boundaries we discovered five of these land parcels had tax-rate area codes other than those for the agency. If the property was taxable when it was acquired, which was unclear from the assessment record, these properties should be assessed. At a later date, the assessor determined that the land was within the agency boundaries indicating that the wrong tax-rate area codes had been assigned to the properties.

We found no indication that the assessor is reviewing section 11 properties for the article XIII A value limitation mandated by the California Supreme Court decision. In each instance, the assessment records indicate that the taxable value is the factored value prescribed in section 11. The assessor should review the section 11 assessments to insure that they comply with the California Supreme Court's decision in *City and County of San Francisco v. County of San Mateo, et al.* (1995) 10 Cal., 4th 554.

Possessory Interests

Our 1992 survey report noted various problems associated with the assessment of possessory interests (PI's). During our current review of the assessor's PI program, we found that the assessor's staff has made many improvements since the 1992 survey. All the procedures recommended in the prior survey have been implemented. Possessory interest assessments are currently the responsibility of a senior appraiser. All possessory interest properties are on the unsecured roll, listed separately, and are reviewed annually when appropriate.

There were 140 possessory interest assessments on the 1997 unsecured assessment roll. We randomly reviewed 33 of these. We found that the assessor's staff is generally doing a good job assessing possessory interest properties. However, there are several areas that require change to improve the level of compliance with the laws and regulations governing possessory interest properties.

SUGGESTION 6: Review all possessory interest assessments when capitalization rates change in order to ensure that taxable value is the lower of fair market value or factored base year value.

Revenue and Taxation Code section 51(b) requires that real property subject to article XIII A be annually assessed at the lower of the factored base year value or the current market value, as defined in section 110. Since possessory interests are real property and are subject to article XIII A, this section applies to all possessory interest assessments that have a market value that is less than its factored base year value.

The appraiser responsible for valuing possessory interests uses the direct capitalized income valuation technique whenever possible. This valuation technique applies a factor based on a market-derived discount rate to the property's net operating income to arrive at a value indicator. Since 1987, the discount rates utilized by the assessor's staff have fluctuated between 8 percent and 10 percent. However, possessory interests' base year values resulting from capitalizing income did not have market value estimates calculated when the capitalization rates changed; such a calculation is necessary to determine if the current market value is less than the factored base year value.

In all properties we reviewed, we found that once a base year value had been established, an inflation index factor was applied for each of the subsequent years. When capitalization rates change we suggest the assessor review the possessory interest assessments for the purpose of enrolling the lower of factored base year value or current market value.

RECOMMENDATION 2: Assess all qualifying possessory interests at the county fairgrounds.

The Yuba-Sutter County Fairgrounds is host to a number of events throughout the year. The main event, the annual Yuba-Sutter County Fair, is a five-day event held late in July and early August of each year. During the annual county fair, the largest concession is the carnival rides, which has generated annual revenue for the county ranging from \$58,613 to \$91,345 during the last four years. This lease is subject to a three-year contract and is usually put up for bid prior to the expiration of each three-year lease. Besides the rides concessionaire, there are a number of concessionaires with year-to-year leases, who have been returning for a number of years, indicating little likelihood of termination in the near future. Some of these concessionaires may exhibit the private benefit, durability, exclusivity, and independence necessary to constitute taxable possessory interests.

In addition, the fairground hosts many interim uses and events. During the year, portions of the fairground are leased to various organizations and private individuals with events running from one to three days. The largest of these are the California Prune Festival, Scottish Festival, U.S. Gun Show, Home Buyers Fair of America, Twin Cities Dog Show, and the Associated Square Dancers Show. These are one-to three-day events and bring in the most revenue of the interim uses to the county. The remaining uses are usually one-day events such as dances, workshops, small animal shows, mineral and other commercial shows, plus a variety of other uses.

Our examination of the records and interviews with various staff members found that the assessor has not assessed any of the fairground users. We recommend that the assessor review all private uses at the Yuba-Sutter County Fairgrounds and assess those determined to be taxable possessory interests.

Water Company Property

Water company properties assessed on local tax rolls may be municipal or district water systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water company associations. Each type presents different assessment problems.

MUNICIPAL WATER SYSTEMS

The California Constitution exempts from taxation property owned by a local government within its boundaries (Article XIII, section 3(b) of the California Constitution). This includes property owned by city water departments or water districts located within city limits or district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. In those cases Article XIII, section 11 of the California Constitution provides that a publicly owned water system property located outside its boundaries is taxable if it was taxable at the time it was acquired by the city or district.

We found that the parcels owned by the municipal water systems located within city limits or district boundaries are handled correctly. These parcels are exempt from taxation under Article XIII, section 3(b) of the California Constitution.

MUTUAL WATER COMPANIES

A mutual water company is a private association created for the purpose of providing water at cost, to be used primarily by its stockholders or members. The association, when incorporated, can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can only do these things in the names of the members. Corporations organized for mutual purposes are not subject to regulations by the CPUC unless they deliver water for compensation to persons other than stockholders and members.

From the records maintained by the assessor's office, we were able to identify nine mutual water companies in Sutter County. We found the mutual water companies located in Sutter County to be correctly assessed.

PRIVATE WATER COMPANIES REGULATED BY THE CALIFORNIA PUBLIC UTILITIES COMMISSION

Private water companies are privately owned utilities in business to earn a profit from the sale of water. These private water companies are regulated by the CPUC. Regulated water companies are required annually to submit financial reports to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return based on the companies' outstanding investments. Because the market values of these properties are tied directly to regulated rates, current market value may be less than a water company's factored base year value, making it necessary to annually determine its taxable value as of the lien date.

SUGGESTION 7: Consider the income approach to value when valuing private water companies.

Currently the appraisal staff ignores the income approach to value when valuing the one private regulated water company in Sutter County. We suggest that the Sutter County appraisers use the income approach to value, in addition to any cost approach (historical or otherwise) that may be used. Income data can be obtained from the financial report submitted to the CPUC. Using this approach will provide a good value indicator for this regulated private company.

PRIVATE WATER COMPANIES NOT REGULATED BY THE CALIFORNIA PUBLIC UTILITIES COMMISSION

Unregulated water companies are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated for profit. Unregulated private water companies may be found serving manufactured home parks, resorts, campsites, etc. There are over 50 properties listed by the state's Office of Drinking Water as private unregulated water companies in Sutter County. The assessor, however, does not annually receive a copy of the list from the state's Office of Drinking Water; only lists from the county's Department of Environmental Health and the California Public Utilities Commission are received. The assessor's staff can cross check all three lists (state's Office of Drinking Water, county's Department of Environmental Health, and the state's California Public Utilities Commission report) against each other.

We believe that the assessor should contact the state's Office of Drinking Water to obtain an up-to-date report of water companies/systems. It would enable him to be more certain that there are no water companies escaping assessment or receiving improper treatment.

It should be noted that since our previous survey the following deficiencies have been corrected.

- (1) The assessor's staff now requests, receives, and reviews the annual reports filed by private water companies with the CPUC.

- (2) The assessor's staff now reviews (and has corrected) all assessments of mutual water companies. Additionally, staff now requests from each water company:
 - (a) Articles of incorporation and amendments.
 - (b) Bylaws and amendments.
 - (c) Lists of lands, improvements, and water distribution systems owned by each mutual water company, showing location and identity of each item.
 - (d) Proof of ownership in the mutual's name of the land and improvement.
 - (e) A listing of all assessor's parcels served by each mutual water company.

Mineral Property

The mineral property appraisals are well documented. The consulting mineral appraiser has been working for the county since 1986. Change in ownership calculations for partial changes in interest are well documented and easy to follow.

NATURAL GAS

Sutter County is the fourth largest gas-producing county in the state. Gas production for 1996 was 12,149,795 thousand cubic feet (MCF). The gas-producing properties are appraised by an outside mineral consultant and the total mineral property roll value for 1997 was \$47.5 million. We found that the county's appraiser is properly applying Rule 468 in the determination of the petroleum roll values.

The mineral appraiser generates production curves using Division of Oil, Gas and Geothermal Resources data and then cross-checks this information against the annual production reports filed by the taxpayer.

MINING

Sutter County has three active aggregate properties which are also appraised by the mineral consultant. A brief review of these properties found that Property Tax Rule 469 is being properly applied in determination of the mining roll values. Two of the properties are appraised using the royalty method and the other is appraised using an operating income approach.

RECOMMENDATION 3: For properties appraised using an operating income approach, provide for a return on working capital.

Property Tax Rule 8(e) provides that sufficient income shall be excluded from the cash flow to provide for a return on working capital. The mineral appraiser included an initial allocation for working capital in his cash flow but did not provide allocations for future years or for the recapture of the working capital investment. No calculations were done to determine how this would affect the assessed value of the property.

The proper procedure for treating working capital is discussed in Assessors' Handbook Section 560, Assessment of Mining Properties. The working capital requirement can be treated in the cash flow in one of two ways.

The first treats the working capital as an investment over the life of the project. Each year the new working capital requirement is determined and the amount of additional investment calculated. In some years and toward the end of the project, the working capital requirement will be less than the previous years and the return of the working capital is treated as additional revenue. At the end of the project the remaining working capital is recaptured as additional revenue.

With the second method, the working capital requirement is determined for each year, and allowed return on that capital is calculated and then subtracted from the annual revenues. Both methods yield similar results and the choice of methods is up to the appraiser. However, the point is that appraisers using the income approach for mineral-producing properties must provide for a return on working capital.

PERSONAL PROPERTY VALUATION AND ASSESSMENT

INTRODUCTION

For the 1997 lien date the business property division processed over 5,000 business property statements with an assessed value of approximately \$420 million. The staff also processed 175 general aircraft and 1,141 vessel statements. The mandatory audit workload consists of 154 accounts which must be completed over a four-year cycle.

Unlike the real property division, the business property division has a comprehensive procedures manual. The manual contains policies and procedures for conducting audits, processing business property statements, assessment of leased equipment, assessment of personal property and fixtures, and maintenance of the audit and general files. Each auditor-appraiser has a copy of the manual.

Coordination within the business property division and with other divisions within the assessor's office has been improved. Improved coordination between the auditors processing the property statements and the auditor processing the leased equipment statements has reduced duplication of effort and simplified the process. The owners of multi-family residential buildings are now properly required to file a property statement (Form 571-R). The assessment of personal property used in multi-family residential businesses has been separated from the real property assessment and is now based on the property statement information. Coordination for the assessment of tenant improvements between the real property division and the business division has been enhanced by using routing slips to exchange information.

The supervising property auditor-appraiser and staff have done a commendable job in improving the performance of the business property division. They have installed effective control and review procedures which has greatly improved the quality of their work. Also, they have offered instructions to the public in order to educate the taxpayers on the proper filing of business property statements (Form 571).

Several recommendations and suggestions follow that will further enhance the quality of the business property program.

AUDIT PROGRAM

Revenue and Taxation Code section 469 requires an audit of the books and records of a taxpayer engaged in a profession, trade, or business at least once each four years when locally assessable trade fixtures and/or business tangible personal property have a full value of at least \$300,000. BOE Rule 192 clarifies the statute by requiring the \$300,000 full value to be reached in each of four consecutive years. Section 532 requires escape assessments to be made within four years

after July 1 of the assessment year in which the property escaped taxation or was underassessed. If the audit cannot be completed within the prescribed time, an extension is available under the provisions of section 532.1, which may serve to avoid property from escaping assessment.

The mandatory audit program is an important function of an assessor's business property division. Audits are the single most important activity the assessor can do to improve taxpayer reporting. Most assessors in California recognize that an active audit program will generate tax changes equal to or greater than the cost of auditing. Another benefit in conducting an audit program is that it allows investigation and resolution of reporting and appraisal problems that arise during business property statement processing.

In our 1992 survey report we recommended that the mandatory audit program be brought to a current status. To the assessor's credit, this has been accomplished. In addition, the assessor's staff has completed a substantial number of nonmandatory audits and desk reviews. These audits uncovered \$38.9 million of undervaluations and \$9.8 million of overvaluations for the 1996-97 assessment roll. These audits help to ensure that the taxpayers of Sutter County are treated fairly, equitably, and in accordance with statutory provisions.

We also recommended in our 1992 survey report that the staff obtain waivers of the statute of limitations when a mandatory audit will not be completed before the end of the four year statute of limitations for escape assessments. For the 1996-97 assessment year, we found that the staff obtained waivers as needed.

We examined the audit files on 16 audits that were conducted on a variety of businesses. We found the audits to be comprehensive and supported with appropriate documentation and explanations. One improvement we suggest is numbering pages in the audit report and cross-referencing key figures and totals; this will make it easier to review the audits.

BUSINESS PROPERTY VALUATION

MINIMUM PERCENT GOOD

For California property tax purposes, business personal property is typically valued based on an estimate of the property's replacement cost new less accrued depreciation. The BOE annually publishes equipment replacement cost index factors and percent good factors in Assessors' Handbook section 581 (AH 581) which is available to county assessors for their use in valuing business property. The explanation of the derivation of equipment percent good factors can be found in the AH 582 (a percent good factor is the reciprocal of accrued depreciation).

GENERAL BUSINESS PROPERTY

Many assessors combine replacement cost new index factors and percent good factors into one “full value factor” which can be applied directly to acquisition cost, thereby eliminating one arithmetic calculation when valuing the property.

SUGGESTION 8: Review the practice of applying minimum percents good in depreciation tables.

The full value factors used by the Sutter County assessor’s staff follow the typical approach, but with an important exception. The percent good is held at an arbitrary minimum. For the 1997 lien date the following minimum full value factors were used:

<u>Economic Life</u>	<u>Sutter County Minimum Full Value Factor</u>
8 years	09 – 13 percent of original cost
10 years	16 – 21 percent of original cost
12 years	15 – 19 percent of original cost
15 years	20 – 22 percent of original cost

The assessor’s staff is using minimum value factors that are significantly higher than those that would result from using the information suggested in AH 581. We suggest that the assessor review his policy of establishing minimum value factors and more closely follow the procedures suggested in AH 581.

COMPUTERS

The valuation of computers and related equipment (herein referred to as computers) has been a contested issue between taxpayers and assessors for the last few years. The BOE, in Letter to Assessors (LTA) 97/18, dated April 2 1997, recommended valuation factors for assessors to use when valuing non-production computers for the 1997 lien date.

These 1997 valuation factors contained tables for valuing personal computers (computers costing \$25,000 or less), mid-range computers (computers costing between \$25,000 and \$499,000), and mainframe computer systems (computer costing \$500,000 or more). These valuation factors were developed after the BOE reviewed data accumulated by the Property Taxes Department staff, the Assessors’ Association, and representatives of the computer industry.

RECOMMENDATION 4: Use the computer valuation factors as recommended in Letter to Assessors 97/18.

The assessor’s staff used, with some deviation, the valuation factors provided by the BOE for the valuation of non-production computers. The deviation was that the assessor’s staff used a

minimum 6 percent valuation factor for computers costing \$25,000 or less; a minimum 8 percent valuation factor for computers costing between \$25,000 and \$499,000; and a minimum 9 percent valuation factor for computers costing \$500,000 or more. These minimum valuation factors deviate from the Board's recommended minimum 2 percent valuation factor for all non-production computers, regardless of acquisition cost. We were told that this deviation was done without any study supporting the deviation.

We believe that the recommended application of these factors yields a reasonable estimate of current market value of computers for the 1997 lien date. Deviation from the computer valuation tables contained in LTA 97/18 without proper support is not appropriate unless there is data to support such deviation. We recommend that the assessor use the Board's valuation tables in valuing computers.

PROPERTY STATEMENT PROCESSING

We randomly selected and reviewed 33 business property statements belonging to five major business classification codes. Our review showed that there was consistency in the way the assessor's staff processed the property statements. The consistency is demonstrated, in part, by the uniformity observed in economic lives used to value the property of similar business types. We believe the assessor's staff processes business property statements in an acceptable manner.

OTHER TAXABLE PERSONAL PROPERTY

CERTIFIED APPRAISERS

Revenue and Taxation Code section 670 requires that any person performing the duties or exercising the authority of an appraiser for property tax purposes as an employee of the state, county, city and county, or city, either general law or chartered, hold a valid appraiser certificate issued by the State Board of Equalization.

SUGGESTION 9: Document that certified staff review boat and aircraft value estimates.

In Sutter County, although the assessor's policy requires a sampling of the value decisions be reviewed by an appraiser, the assessment of aircraft and boats is performed entirely by a non-certified assessment clerk. The tasks include receiving the taxpayers' reports, reviewing the reports for completeness, calculating the full cash values, enrolling the calculated values, and processing any roll changes pertaining to aircraft and boats.

Non-certified assessment staff should not assume the duties, responsibilities, and authority of an appraiser. We suggest that the assessor document that a certified staff member reviewed the value judgments for the aircraft and boat assessments.

BOATS

For the 1997 lien date the assessor's office assessed 3,374 pleasure boats with a total assessed value of \$8,116,677. The primary sources of discovery are Department of Motor Vehicles (DMV) reports, marina lists, and referrals from other counties.

Owners of boats are required to register their boats with the DMV. To facilitate tracking of boat owners and boat locations, DMV permits assessor's offices to establish a direct communications link that allows the assessor access to the DMV database. At the time of the fieldwork for this survey, the assessor did not have direct access to the DMV computerized database for boats. We were informed that the assessor has tried several times, without success, through the Sutter County Government Data Center to have an on-line communication link with DMV. Having this access to the DMV data base would save considerable staff time in determining the assessment status of boats. We commend the assessor for his attempts to connect directly to this database and encourage him to continue working with the county data processing unit to make the connection.

Annually in Sutter County, one-third of the more than 3,000 vessels that are assessed are valued using data from the *National Automobile Dealers Association, Small and Large Boat Appraisal Guide (NADA)*. When processing a sale of a boat, the assessor's staff enrolls the reported purchase price if the price falls within the NADA value range. If the reported purchase price differs from the NADA value range, the assessment clerk uses the low value from the value range of the guide. This conservative approach of choosing the low value from the value range of the guide is dictated by the "soft" market for boats.

Those boats that have not recently sold and that are not scheduled for reappraisal by use of the NADA Guide are valued using an across-the-board 5 percent depreciation of last year's assessed value. The use of a uniform 5 percent annual depreciation simplifies the boat assessment process. However, it assumes a fixed depreciation rate for each boat which may or may not lead to market value. This use of an arbitrary value reduction on pleasure boats is strictly an administrative convenience and may not render a reasonable estimate of market value.

The assessor's staff should consider categorizing boats into two groups (purchased new and purchased used), with six sub-groups (powerboat, sailboat, inboard, onboard, inboard/outboard and jet ski) in each group. Trends in market values for these groups and sub-groups could be determined by comparing selling prices of a few samples in each sub-group with published boat valuation guides for the current and prior year. Once trend factors are computed, they should be applied to all boats within each sub-group. This approach will provide a more accurate estimate of market value of boats that are not the subject of an appraisal that uses values directly from the NADA guide.

AIRCRAFT

Penal Assessments

Revenue and Taxation Code section 5367 provides that any person who fails to file an aircraft statement, requested pursuant to section 5365, by the time specified by the assessor, shall have added to their assessed value a penalty of 10 percent of the market value of the unreported aircraft.

RECOMMENDATION 5: Apply the 10 percent penalty for failure to timely file an aircraft statement.

The current practice in the assessor's office is not to apply the 10 percent non-filing penalty when aircraft owners do not file an aircraft property statement by the deadline. When the aircraft owner fails to file this statement, the assessor makes a value estimate for the assessment and enrolls the value without the 10 percent penalty.

We recommend that the assessor apply the 10 percent penalty when the aircraft owner fails to file or is late in filing the property statement.

Property Statements

Revenue and Taxation Code section 441 is the statute that gives an assessor the authority to demand a signed property statement from any person required by law to make such a declaration. The BOE prescribes property statement forms for many types of businesses and property owners; any significant deviation from the form prescribed by the BOE requires prior approval from the BOE. However, the BOE has not prescribed a property statement form for general aircraft.

The only specific reporting requirement for general aircraft is imposed by Revenue and Taxation Code section 5365, which requires that the aircraft owner provide the assessor with the make, model, and year of manufacture of the aircraft. Assessors have combined this reporting requirement with the authority granted under section 441 to design aircraft property statements that ask for additional information such as the aircraft's condition, location, equipment, and purchase price.

SUGGESTION 10: Revise the aircraft property statement to include references to Revenue and Taxation Code sections 5365 and 5367.

The assessor invokes section 441 as the authority for requesting information from aircraft owners; there is no reference to section 5365 as additional authority for the request. Although section 441 grants authority to the assessor to require the filing of a signed property statement, there is no authority for levy of a penal assessment required by section 463 unless the property statement is prescribed by the BOE. Sections 5365 and 5367 should be cited when asking for information from aircraft owners (Section 5367 requires a 10 percent penalty be added if the aircraft owner does not timely file the statement requested pursuant to section 5365). We suggest that the assessor revise the aircraft questionnaire to cite sections 5365 and 5367 as authority for the request.

MANUFACTURED HOMES

Our 1992 survey report stated that 599 manufactured homes were located in Sutter County; that number has grown to over 1,500 in 1996. The 1992 survey report recommended that the assessor expand the use of the sales comparison approach to value; include manufactured home appraisal procedures in a procedures manual; and assess all taxable manufactured home accessories. The assessor has implemented two of the three elements of the recommendation; sales comparison is used in appraisals and taxable manufactured home accessories are being assessed. Manufactured home appraisal procedures have not been added to the procedures manual.

We reviewed 20 randomly selected manufactured home assessments for the assessment period of 1994 to 1997. In each instance we found that proper appraisal techniques were used; more than one data source was consulted; and taxable improvements were assessed. We commend the assessor on his progress in dealing with manufactured homes; however, we found that they are incorrectly classified.

RECOMMENDATION 6: Comply with Revenue and Taxation Code section 5801 by classifying manufactured homes as personal property.

The assessor classifies manufactured homes as improvements. In order to properly assess manufactured homes it is necessary to classify them as personal property. The intent of Revenue and Taxation Code section 5801(b) is that all manufactured homes subject to the Manufactured Home Property Tax Law be classified as personal property.

We recommend manufactured homes be classified as personal property.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS

ASSESSOR'S OFFICE

(530) 822-7160



COUNTY OF SUTTER

Michael V. Strong, Assessor

William B. Jackson, Chief
County Property Tax Division
Property Taxes Department
State Board of Equalization
450 N Street, MIC 62
Sacramento, CA 94279-0062

January 15, 1999

Dear Mr. Jackson:

In accordance with Section 15645 of the Government Code, the following pages comprise the Assessor's Responses to recommendations advanced by the State Board of Equalization relative to the Assessment Practices Survey of the Sutter County Assessor, which was conducted in September and October of 1997. Please include these responses as part of your survey report.

We would like to extend to Rudy Bischof and members of the survey team our appreciation for the courteous and thoughtful manner in which the survey was conducted and for their sensitivity to considerations impacting on availability of staff, time, and resources in this office.

We are most appreciative, also, of the Board's acknowledgement and positive comments regarding procedural changes and technical improvements incorporated in recent years, which have significantly enhanced the overall quality, efficiency, and effectiveness of our assessment program.

I would like to express my gratitude, also, to the staff of this office for their continued hard work, dedication, commitment to high-quality public service, and overall contribution in facilitating the above noted changes and improvements.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael V. Strong".

MICHAEL V. STRONG
Sutter County Assessor

SUTTER COUNTY
ASSESSMENT PRACTICES SURVEY
COUNTY RESPONSES
to
BOE RECOMMENDATIONS
January 1999

RECOMMENDATION 1:

“Comply with Revenue and Taxation Code section 155.20 by applying the low value property exemption uniformly to all qualifying properties.”

RESPONSE:

We concur, and already have implemented procedures to insure consistency in uniform application of the low value exemption.

RECOMMENDATION 2:

“Assess all qualifying possessory interests at the county fairgrounds.”

RESPONSE:

We concur and will seek to implement this recommendation, beginning in 1999.

RECOMMENDATION 3:

“For properties appraised using an operating income approach, provide for a return on working capital.”

RESPONSE:

The survey report narrative text relative to this recommendation states the following:

“The mineral appraiser included an allocation for working capital in his cash flow but did not provide allocations for future years or for the recapture of working capital investment. No calculations were done to determine how this would affect the assessed value of the property.”

The above statement is followed by a summary discussion of the “proper procedure” for treatment of working capital, pursuant to the AH 560 Assessors’ Handbook.

This concern and recommendation was brought to the attention of our contract petroleum and mineral appraiser, William Hunter, who responded, in writing, with an explanation of his procedure, which contradicts the above assertions of the survey team. We suggested that members of the SBE survey team follow up with Mr. Hunter regarding this matter. No such contact was initiated.

Accordingly, we concur with the response of Mr. Hunter, who, in pertinent part, stated the following in his letter:

"A much simpler, and equally valid approach, is to include working capital as a component of operating costs. This is the method I used for the aggregate property in question. Working capital is treated as an expense by the operator, the same as mine & haul costs, etc. I have not appraised any property which handles working capital the way that AH560 does. We are required to value properties using methodologies reflective of the market place; all operations I have valued treat working capital as a component of operating costs, and not as a separate entry. In summary, I believe my technique for handling working capital complies with Rule 8(e) and more accurately reflects use by aggregate producers than the complicated methods promulgated by the SBE."

RECOMMENDATION 4:

"Use the computer valuation factors as recommended in Letter to Assessors 97/18."

RESPONSE:

No.

Currently, we use minimum percent valuation factors greater than the 2% recommended by the SBE, as follows:

Computers costing less than \$25,500 - minimum factor - 6%

Computers costing \$25,000 - \$499,000 - minimum factor - 8%

Computers costing \$500,000 or more - minimum factor - 9%

An internal review and discussion with taxpayers and with other counties has indicated that a minimum value factor of 2% is completely erroneous. Our internal studies show that the minimum percent factors used by this office, as above indicated, are more reflective of fair market value.

RECOMMENDATION 5:

"Apply the 10 percent penalty for failure to timely file an aircraft statement."

RESPONSE:

We concur. Beginning in 1999, the Sutter County Aircraft Property Statements have been revised to include references to Revenue and Taxation Code Sections 5365 and 5367, allowing application of the 10% penalty when circumstances warrant.

RECOMMENDATION 6:

"Comply with Revenue and Taxation Code section 5801 by classifying manufactured homes as personal property."

RESPONSE:

We concur. This recommendation will be implemented, beginning in 1999.